Witness CCS -1

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

APPLICATION TO REMOVE GSS AND EAC RATES FROM QUESTAR GAS COMPANY'S TARIFF	Docket No. 06-057-T04

DIRECT TESTIMONY OF

DANIEL E. GIMBLE

FOR

THE

COMMITTEE OF CONSUMER SERVICES

January 16, 2007

Q: PLEASE STATE YOUR NAME, POSITION, BUSINESS ADDRESS FOR THE RECORD.

A: My Name is Daniel E. Gimble. I am the Chief of Technical Staff for the Committee of Consumer Services. My Business Address is 160 E. 300 S, Heber Wells Bldg., SLC, Utah.

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: My testimony addresses Questar Gas Company's (Questar or the Company) Application to eliminate the GSS, EAC, IS-4 and IT-S rates from its tariffs in this docket.

Q: PLEASE BRIEFLY DESCRIBE THE COMPANY'S APPLICATION.

A: Questar's Application can be summarized as follows:

(1) Questar proposes to eliminate its GSS, EAC, IS-4 and IT-S tariffs associated with extending gas service to specific rural communities in Utah.

(2) Questar proposes the $1.7 million <u>annual</u> revenue requirement impact that results from removing those tariffs be <u>permanently</u> absorbed into the rates paid by GS-1, I-4 and IT customers. The Company claims the $1.7 million figure is comprised of two components: $1.2 million in un-recovered GSS expansion costs; and $0.5 million in un-recovered EAC expansion costs.

(3) Questar proposes that these tariff changes, and shift in cost responsibility from certain classes to other classes, be implemented outside of a general rate case.

(4) Questar proposes that, in the future, any community seeking natural gas service would have to make an up-front contribution of funds to pay for expansion costs.

Because of the large rate impact on the I-4 class (an estimated 56.8% increase to the DNG portion of the I-4 rate), Questar subsequently amended its Application and proposes that the Company absorb $150,000 of the total rate impact on the I-4 class. According to the Company, this change effectively puts the I-4 and IT class on the same footing; both classes will receive a $1.2% rate increase if the Commission approves the Company's proposal.

Q: DID THE COMPANY FILE TESTIMONY IN SUPPORT OF ITS APPLICATION?

A: No. The Company filed no testimony supporting its proposal in this docket. The Company simply referenced as evidence a "QGC GSS/EAC Task Force Report" prepared by the Division and submitted to the Commission on August 24, 2006.

Q: DOES THE COMMITTEE BELIEVE THAT QUESTAR HAS MET ITS REQUIRED BURDEN OF PROOF BY SUPPORTING ITS RECOMMENDED CHANGE IN RATES WITH SUBSTANTIAL EVIDENCE?

A: No. The Committee believes the Company's filing is deficient in that it has not adequately demonstrated using standard utility ratemaking principles, that the existing GSS and EAC charge an unjust, unreasonable, discriminatory or preferential rate. Furthermore, Questar has not demonstrated that the tariff changes proposed in its Application will result in just and reasonable rates. The Company's Application would alter GSS, EAC, IS-4 and IT-S rates which the Commission earlier found to be just and reasonable, absent substantial evidence of the revenues collected by the Company in relation to the actual costs to extend natural gas service. The evidentiary burden rests with the Company to show that these proposed tariff changes, and the rate impacts on the GS-1, I-4 and IT classes, are just and reasonable.

Q: YOU PREVIOUSLY MENTIONED A TASK FORCE REPORT AUTHORED BY THE DIVISION. DID THE COMMITTEE PARTICIPATE IN TASK FORCE MEETINGS, AND AS RESULT OF THAT PARTICIPATION, PREPARE AND FILE A MEMORANDUM ON AUGUST 24, 2006, WHICH INCLUDED A PROPOSAL FOR TREATING THE GSS-EAC RATES?

A: Yes. In the course of a task force review of proposals addressing the current GSS and EAC rates, parties evaluated the origin and purpose of the rates, the impacts upon customers paying these rates, and the rate impacts stemming from proposals to change or eliminate the GSS and EAC tariffs. The Committee presented a proposal that would spread among Questar's shareholders, GSS and EAC customers and GS-1 customers any documented revenue shortfall that resulted from eliminating the GSS and EAC rates. The Committee maintained that such an apportionment of cost responsibility could produce a reasonable and balanced outcome for all Utah residential and small business customers. The Committee also recommended that the Commission convene a technical conference with all interested parties to consider this proposal and any alternative proposals. Questar subsequently filed a memorandum opposing such a technical conference and one was never scheduled by the Commission.

Q: WHAT CONCERNS LED THE COMMITTEE TO PROPOSE FOR CONSIDERATION A SHARING OF ANY GSS-EAC REVENUE SHORTFALL?

A: First, the Committee was concerned about the accuracy of revenue and cost information that formed the basis for the development of GSS and EAC rates. Residential and small business customers in the GSS-EAC communities were continuing to pay rate surcharges that may not be just and reasonable. Customers in GSS communities had been paying these rate surcharges for a lengthy period of time (15 years in some instances) and it appeared that customers in certain EAC communities would never pay off the EAC costs.

Second, the Committee was concerned about the varied nature of approaches used by the Company to recover the estimated costs associated with extending natural gas service to rural communities. These approaches are described in the Committee's Memorandum, which I have attached as CCS Exhibits 1.1 to my testimony.[1]

The important point here involves economic opportunity for the Company. Specifically, the Company developed the GSS and EAC tariff approaches, at least in part, to further its business opportunities as the primary provider of natural gas to communities in central and southern Utah, and should appropriately share in the cost of any solution that involves substantially modifying or eliminating the GSS and EAC Tariffs.

Q: WHAT ADDITIONAL CONSIDERATIONS SUPPORT QUESTAR HAVING A FINANCIAL STAKE IN ANY OUTCOME THAT INVOLVES REMOVING THE GSS AND EAS TARIFFS?

A; The initial wave of GSS communities (St. George, Cedar City, etc.), and Ogden Valley (who was extended service under the EAC Tariff) fulfilled their obligations by paying incremental rates over roughly a ten-year

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[1] The Commission has had an opportunity to review those materials and I will not spend time recounting the entire history underlying the expansion of service to rural communities in Utah.

period. If the Company's proposal is approved, customers in these communities would be charged a second time to pay for expansion costs; this time to pay off the expansion cost obligations that other GSS and EAC communities agreed to take on in order to receive natural gas service.

As I indicated above, the first wave of larger GSS communities were scheduled to pay off their expansion costs over a 10-year period. They successfully met this time line and customers in those communities were moved to the GS-1 tariff in the summer of 1997. However, the Company never tracked the GSS revenues collected from customers in fast growing areas such as St. George and Cedar City. The fact of the matter is that during the 1987-1997 period, Southwest Utah experienced rapid and sustained population growth. There is a distinct possibility that actual customer levels greatly exceeded the Company's customer (revenue) forecasts and that Questar collected significantly more revenue via the GSS rate than was required to cover expansion costs.

This leads me to make two related observations: (1) since the Company did not track the actual revenues collected from residential and business customer customers in the first wave of GSS communities, those customers may have overpaid for facilities to receive natural gas service; and (2) under the Company's proposal customers in those same communities will be charged a second time to help cover remaining expansion costs associated with other GSS-EAC communities.

The above considerations dictate that fairness and balance should play an important part in resolving this matter and that the Company should have a financial stake in any GSS-EAC proposal approved by the Commission.

Q: WAS QUESTAR'S GSS-EAS APPLICATION RECENTLY DISCUSSED AT A JANUARY 9, 2007 COMMITTEE MEETING.

A: Yes, the Application was discussed at length during that Committee Meeting.

Q: WHAT DID THE COMMITTEE DETERMINE BASED ON THAT DISCUSSION?

A: The Committee determined that the GSS and EAC rates do not appear to be just and reasonable and a more precise accounting of the revenues generated from those rates needs to be established before ratemaking treatment of remaining GSS-EAS expansion costs can be further considered. The Committee also determined that any revenue impacts resulting from changing those rates should be considered in a general rate case where all revenue, expense, rate base and rate of return items can be fully examined.

Q: DO YOU BELIEVE WHAT THE COMMITTEE DETERMINED IN ITS JANUARY 9, 2007 MEETING IS A DEPARTURE FROM WHAT IT INDICATED IN ITS TASK FORCE RECOMMENDATIONS?

A: No. What the Committee determined in its recent meeting is consistent with the issues raised earlier in its task force recommendations. The key concern remains whether the current GSS and EAC rates are just and reasonable given uncertainties relating to accuracy of the revenues and costs associated with those rates.

Q: PLEASE EXPLAIN THE COMMITTEE'S CONCERNS ABOUT ESTABLISHING A MORE ACCURATE RECORD OF THE ACCOUNTING OF REVENUES AND COSTS IN THIS DOCKET.

A: A recent meeting involving Questar, the Division and the Committee shed light on a number of issues that may materially affect this case. The

Committee is preparing and intends to submit a new DR with a view to more fully investigating each of the issues identified below.

(1) the Company maintains that it has not tracked actual revenues generated from the GSS class and that the Commission never required that it keep an accounting record of GSS revenues. This raises the salient issue as to whether the claimed $1.2 million of annual un-recovered GSS costs is a solid number (i.e., known and measurable) to rely on for ratemaking purposes. The annual GSS revenue shortfall of $1.2 million is simply an estimate derived by taking the difference between the GSS and GS-1 rates. Conversely, the EAC tariff essentially operated as a 15-year loan and the Company, as provided in response to CCS DR 1.09, has tracked the revenues generated via the EAC rates and the unpaid loan balances for each EAC community and in the aggregate.[2] The Company's response to CCS DR 1.09 is attached as CCS Exhibit 1.2.

Q: WHILE THE COMPANY WAS NOT EXPLICITLY REQUIRED BY THE COMMISSION TO TRACT AND ACCOUNT FOR REVENUES GENERATED FROM THE GSS CLASS, DO YOU FIND IT UNUSUAL FOR A REGULATED UTILITY TO CLAIM THAT IT DOES NOT MAINTAIN REVENUE RECORDS FOR A CUSTOMER CLASS THAT IT HAS SERVED FOR APPROXIMATELY TWO DECADES?

A: Yes, and the new DR we are preparing will request that information be provided. We believe the information in question may be available in the Company's customer billing records.

Q: PLEASE CONTINUE WITH YOUR LIST OF ISSUES.

[2] Interest was initially assessed at the Company's pre-tax rate of return; in 2005, interest was lowered to its after-tax rate of return and applied to EAC account balances to adjust those balances as if the lower interest rate was in effect from the start of each EAC tariff.

A: (2) The expansion costs related to the GSS-EAC areas were not included in a separate ratemaking account; they were placed into the Company's general rate base along with all other capital investment. The GSS and EAC were designed as incremental rates to the standard GS-1 rate for the purpose of generating incremental revenues to recover the expansion costs over time.[3] However, the revenues collected by the Company through the GSS-EAC rates were apparently accounted for as general revenues and not treated as an offset to rate base. It is unclear whether this accounting treatment impacts the $1.7 million amount that Questar proposes to roll into GS-1, I-4 and IT rates.

(3) GS-1 rates have changed periodically since the second wave of rural communities signed up in the early 1990s to take service under the GSS tariff. Since the GSS rate was established at a level double the GS-1 rate, the GSS rate increased as well. How this impacted the amount of GSS revenues collected by the Company, relative to a fixed cost estimate of extending service to GSS communities, is uncertain.

(4) The Company proposes to <u>permanently</u> roll into GS-1 and IT rates $1.7 million of un-recovered GSS and EAC expansion costs. The Committee believes that this piece of Questar's proposal is particularly troublesome, if not fatally flawed, because the GSS and EAC surcharges were to be assessed for a time-limited period. Stated differently, there is a "shot clock" on both surcharges and the surcharge assessed on the majority of GSS customers is scheduled to expire in 2012. A proposal to permanently include what were intended to be time-limited surcharges into Questar's base rates would foster ongoing windfall profits for the Company.

[3] According to the Company, the GSS-EAC rates were set at a level to recover costs attendant to a "minimum system configuration" rather than the costs of the "actual system configuration" that was laid. The actual pipeline system was sized to meet expected load growth. The difference in costs between the minimum and the actual system configurations is recovered from all customers. This exemplifies Questar's normal accounting practices and procedures when expanding service to (or within) any area in its service territory.

Q: WOULD YOU AGREE THAT THE CONCERNS YOU DESCRIBE ABOVE RELATING TO THE COMPANY'S CURRENT PROPOSAL ARE TWOFOLD: (1) THE ACCURACY OF THE AMOUNT OF UN-RECOVERED GSS AND EAC COSTS; AND (2) THE TIME REQUIRED TO RECOVER REMAINING GSS-EAC EXPANSION COSTS FROM GS-1, I-4 AND IT CUSTOMERS.

A: Yes. Both concerns could possibly result in a windfall for Questar. However, the Company's proposal to permanently roll any un-recovered GSS-EAC expansion costs into GS-1 rates is at odds with standard ratemaking practices involving surcharges and is unjustified.

Q: PLEASE EXPLAIN.

A: Surcharges are normally assessed on customers' bills for a temporary period due to special circumstances. For example, during the 2000-2001 western energy crisis, a settlement was approved by the Commission to enable Utah Power to recover approximately $60 million of "excess net power costs" through a temporary surcharge that was assessed on customers' electricity bills for a two-year period. If Utah Power had proposed that those excess net power costs be permanently included in its base rates (following Questar's "logic" in this case), the prospect of parties reaching a settlement in that case would have been highly unlikely.

Q: PLEASE BRIEFLY EXPLAIN THE COMMITTEE'S PERSPECTIVE THAT THE COMPANY'S PROPOSAL SHOULD ONLY BE CONSIDERED IN THE CONTEXT OF A GENERAL RATE CASE?

A: First, there are several concerns regarding how the Company determined the amount of un-recovered expansion costs and the accuracy of the Company's total $1.7 number. A general rate case would be a more appropriate forum for determining the accuracy of the Company's claimed $1.7 million annual revenue shortfall. Second, there is a significant policy concern relating to the Company's proposal to permanently include costs in GS-1 rates that are presently collected from other customer classes in time-limited surcharges. Third, the rate impacts of changing the GSS, EAC, IS-4 and IT-S tariffs should be addressed in a general rate case where all rate elements (expenses, revenues, rate base, rate of return, cost-of-service, rate design, etc.) are subjected to careful scrutiny and potential adjustment.

Q: WHAT ARE THE COMMITTEE'S RECOMMENDATIONS?

A: The Committee believes that the Company's Application raises significant policy and factual issues that may only be addressed in the context of general rate case. Our primary recommendation is that issues involving the Company's proposal to remove the GSS, EAC, IS-4 and IT-S should be analyzed in Questar's next general rate case.

If the Commission decides to proceed in the current docket and consider the GSS-EAC issues at this time, the Committee recommends that the Commission require Questar to file an affirmative case supporting the various requests included in its Application, as amended. The Company should be required to file testimony and evidence in support of its Application and parties should be given adequate time to perform additional discovery on that testimony and evidence.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes it does.